

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7923

BILL NUMBER: HB 1927

DATE PREPARED: Jan 22, 1999

BILL AMENDED:

SUBJECT: Living wage requirements.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill defines "living wage" and adds living wage, holiday pay, and health insurance requirements to the requirements for Enterprise Zone credits, Economic Revitalization Area (ERA) deductions, Neighborhood Assistance credits, Economic Development for a Growing Economy (EDGE) credits, and job training funds for projects that primarily benefit an identifiable employer. It provides that a granting body may not approve an application for development assistance after June 30, 1999, unless the applicant pays all of its employees at least a living wage and provides holiday pay and certain health insurance coverage. The bill also makes mandatory a statement of benefits regarding living wages, holiday pay, and health insurance coverage in an enterprise zone credit application.

The bill provides that governmental units may not enter into certain purchasing or public works contracts unless the contractor pays its employees a living wage and provides holiday pay and certain health insurance coverage. The uses of funding for comprehensive job training and related services would also be limited to projects that hire employees at a living wage and that provide holiday pay and certain health insurance coverage. For purposes of governmental purchasing of supplies, this bill provides a price preference of 20% for supplies that are purchased from a person that pays all of its employees at least a living wage and provides holiday pay and certain health insurance coverage.

In addition, the state or a political subdivision would be prohibited from entering into a public-private agreement with an operator unless the operator pays its employees a living wage and provides holiday pay and certain health insurance coverage. It is also provided that an employee who is paid less than a living wage or is not provided holiday pay or certain health insurance coverage is not bound by the terms of a covenant not to compete under certain conditions.

Effective Date: Upon passage; July 1, 1999.

Explanation of State Expenditures: This bill defines "living wage" as a wage rate of \$14.88 per hour, excluding fringe benefits. After January 1, 2001, the Department of Labor (DOL) would be required to annually adjust the living wage to reflect changes in the national Consumer Price Index. The DOL must also establish rules regarding

the application of the living wage, compensation for holidays and required health insurance coverage to the Enterprise Zone program. The Department should be able to absorb the costs related to these provisions within its current budget.

This proposal prohibits state or federal funding for comprehensive job training if the jobs do not provide the living wage, holiday pay, and health insurance coverage (of which 75% is paid for by the employer). It requires the state to request authorization for the use of federal grants for job training. The Department of Workforce Development (DWD) would also be required by this bill to monitor compliance with these provisions, possibly increasing the administrative expenses of the DWD. This provision would not apply to job training for residents of Enterprise Zones.

Although this bill requires that businesses seeking Enterprise Zone credits, Neighborhood Assistance credits, and EDGE credits must provide certain wages and benefits, specific procedures for monitoring compliance are not provided. There will likely be other unknown additional expenditures necessary to develop the means to oversee the living wage, holiday compensation, and health insurance requirements.

This bill also provides that a purchasing agent of a state or local governmental body may not enter into or renew a contract to purchase supplies or services unless all of the contractor's employees receive a living wage, holiday compensation, and certain health insurance coverage. It also establishes a price preference of 20% for supplies that are purchased from a person that pays a living wage, holiday compensation, and certain health insurance coverage. These provisions could greatly increase state expenditures for the purchase of supplies and services.

Explanation of State Revenues: If a business does not maintain the living wage, holiday compensation, and certain health insurance coverage, it would lose its eligibility for any economic development incentives under this bill. This would result in a reduction in the total credits against tax liability granted by the state. This may reduce the number and amount of incentives awarded, negating some positive secondary economic effects.

The specific impacts of this bill will vary with each economic development program. The following paragraphs outline the impact on each program in more detail:

Enterprise Zone Program: This bill would prevent a taxpayer from receiving a deduction, credit, or other exemption related to the Enterprise Zone program unless all employees of the taxpayer within the zone receive at least the living wage, holiday compensation, and certain health insurance coverage. Enterprise Zones are established in economically distressed areas where 25% of the households have incomes below the poverty level and unemployment is 150% higher than the state average. This program is administered by the Indiana Department of Commerce (IDOC).

EDGE Credit Program: This bill requires that a taxpayer must create jobs that provide at least the living wage, holiday compensation, and certain health insurance coverage in order to receive EDGE credits. These credits may be taken against a taxpayer's gross income tax, adjusted gross income tax, supplemental net income tax, bank tax, savings and loan association tax, insurance premium tax, or financial institution tax liabilities. The credits may not be used for more than ten years. In 1997, \$14.8 M in EDGE credits were awarded to five companies with the expectation of 1,393 new jobs being created. This program is also administered by the IDOC.

Neighborhood Assistance Tax Credit Program: The Neighborhood Assistance tax credits are awarded via non-profit organizations to taxpayers contributing to various community projects. This bill would require that credits be awarded only for job training that enables the worker to receive at least the living wage, holiday compensation, and certain health insurance coverage. As job training is only one of the neighborhood projects that taxpayers may

receive credits for, this bill is unlikely to greatly impact the program as businesses could focus their efforts on other community projects. The total amount of Neighborhood Assistance credits that can be granted is currently capped at \$2.5 M each fiscal year.

Explanation of Local Expenditures: This bill could greatly increase costs to local units for the purchasing of supplies and services due to the 20% price preference and other requirements of this bill (see above Explanation of Local Expenditures).

Explanation of Local Revenues: The ERA tax abatement program would be directly affected by this bill's requirements for obtaining economic development incentives:

ERA Tax Abatement Program: The ERA program is designed to promote development and rehabilitation in economically distressed areas. Local governments are authorized to establish ERAs and grant property tax abatements for taxpayers rehabilitating old structures, constructing new ones, or purchasing manufacturing equipment. The tax abatements may be taken against the assessed value of the real estate or new equipment. Under this bill, the deductions may only be taken when all employees hired or maintained within the ERA are paid at least the living wage and receive both holiday compensation and certain health insurance coverage.

State Agencies Affected: Department of Workforce Development, Department of Labor, Indiana Department of Commerce.

Local Agencies Affected: All.

Information Sources: 1997 EDGE Annual Report, March 1998, IDOC.